



August 23, 2006

Charles Box, Chairman
Illinois Commerce Commission
527 E. Capitol Ave.
Springfield, IL 62701

RE: Illinois Energy Solutions, Questions for Interested Parties

Dear Chairman Box:

Thank you for your recent letter of inquiry. On behalf of the Illinois Department of Commerce and Economic Opportunity, it is a pleasure to provide the following comments regarding the benefits to all utility customers in Illinois of a significant expansion of the energy efficiency programs in the state.

Energy efficiency brings many benefits to the state as a whole and to electric customers. Energy efficiency reduces the cost of doing business in Illinois, creates jobs both in the energy services industry and in the manufacture of energy efficiency products, and improves environmental quality. Implementation of Governor Blagojevich's proposed Energy Efficiency Portfolio Standard in Illinois can reduce total energy costs for all customers, including both program participants and non-participants. Per the Governor's plan (and per the recommendation of the ICC staff in their report on the Sustainable Energy Plan), furthermore, funds dedicated to efficiency would not exceed a rate impact cap of 0.5% per year and no more than 2% in cumulative terms for an Energy Efficiency Portfolio Standard transition period lasting through 2012.

The Department of Commerce and Economic Opportunity (DCEO) recently presented information under the energy efficiency rulemaking (06-0388) that I believe is directly relevant to the Commissioners' questions. I have attached the presentation that was jointly given by myself and Marty Kushler of the American Council for an Energy Efficient Economy (ACEEE), who is under contract with the Department. It provides information on best practices in energy efficiency from other states, a summary of DCEO's existing energy efficiency programs, and recommendations for implementing the Energy Efficiency Portfolio Standard under the Governor's Sustainable Energy Plan.

Furthermore, in October of 2005, as the Commission contemplated emergency energy efficiency programs in response to the higher natural gas prices caused by hurricanes and other factors that year, I also provided a presentation on efficiency programs that could be delivered to meet the needs of both the short-term emergency at that point and the long-term general need for low-cost

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energy provision in the state. That presentation focused significantly on the question of why the need for efficiency programs is not obviated by high prices, and argues that although price is indeed a powerful signal, that signal is often either not received or not actionable because key customer segments are capital-constrained, removed from price signals, using dysfunctional financial analytical tools (and therefore in need of better financial tools), insulated by long-term contracts, or generally not aware of market opportunities of energy efficiency. That presentation is also attached.

Energy efficiency provides strong utility system benefits. Energy efficiency puts downward pressure on energy market prices, reduces investment needed in transmission and distribution equipment, lowers the risk of system reliability problems, and reduces the cost risk from future environmental regulations (most notably carbon emissions, but also mercury and others).

In an effort to better quantify the environmental benefits of efficiency, please note that DCEO is currently working with the U.S. Department of Energy and the Illinois Environmental Protection Agency to estimate the environmental benefits of energy efficiency and renewable energy as electricity supply sources, including estimates of reduced greenhouse gases, ozone precursors, and sulfur emissions. DCEO is also working with Illinois Environmental Protection Agency to ensure that energy efficiency along with renewable energy sources are incorporated into the Illinois State Implementation Plan for ozone attainment as low-cost options.

Energy efficiency can play an important role in helping electric markets restructuring work for all customers. Consumer education – that is, providing consumers with critical information about their efficiency options and their benefits and costs – is essential. Likewise, we must address the needs of hard to reach customers, particularly low income households, new construction sectors, and small businesses in general.

With its limited resources from the Energy Efficiency Trust Fund and grant funds from the U.S. Department of Energy, DCEO administers several energy efficiency programs that directly help electric utility customers. Home Performance with Energy Star (HPwES) puts comprehensive information into the hands of a limited number of residential consumers on recommended home improvements, with recommendations prioritized according to their impact on energy efficiency and cost-effectiveness. Homeowners not only receive a thorough home energy evaluation, but also receive a list of contractors trained in whole-house energy-efficiency improvements. The Small Business Smart Energy Program (SBSE) and Manufacturing Energy Efficiency Program (MEEP) similarly help Illinois businesses to identify and evaluate cost effective energy efficiency measures. And through the Energy Efficient Affordable Housing Construction Program (EEAHCP) the Department provides grants to ensure that energy efficient building practices are used in the rehabilitation or construction of affordable housing units.

All of these programs are limited in scope by inadequate funding. To increase the implementation of efficiency measures and to broaden the appeal of the programs to a substantial number of customers, these programs need financial implementation incentives. A review of the best practices literature for energy efficiency programs (such as those offered by ACEEE)

indicates that the provision of such financial incentives is the main difference between DCEO's current efficiency programs and the national best practices models. Financial incentives could also include a payment option called Pay as You Save (PAYS), such as a New Hampshire program through which energy improvements are financed out of energy cost savings on the monthly utility bill.

A final point is that transforming energy markets not only requires educated consumers, but also educated energy professionals. HPwES, SB\$E, and EEAHCP all include educating local contractors as an important element. The Department has also recently provided training to about 1500 builders, architects, engineers, contractors, and code enforcement officials throughout Illinois to prepare for the adoption of the state's new Commercial Energy Building Code. The state would need to play a similar role in providing education and training and on-going interpretation and assistance for the residential energy code, if the state adopts one, and for updates to both the commercial and residential codes.

Thank you for the opportunity to provide input to the ICC on these important questions. DCEO strongly supports the Commission's efforts to prepare for the upcoming changes to the Illinois retail electric market, and would be happy to answer any follow up questions stemming from the two presentations presented. DCEO can also provide similar information for demand response and renewable energy—reviewing best practices in other states and recommending the best policies and programs for Illinois. Finally, DCEO encourages the Commission to implement the Governor's Sustainable Energy Plan, which would set standards for both energy efficiency and renewable energy and provide a wide range of benefits to energy consumers in Illinois and to the state as a whole.

Sincerely,

A handwritten signature in black ink, appearing to read "Hans Detweiler". The signature is stylized with a large, bold "H" and "D".

Hans Detweiler
Deputy Director for Energy and Recycling